Long-Term Care Task Force
Briefing Paper

Issue: Social Insurance for Long Term Supportive Services

Description: Unlike the current public and private systems, social insurance would provide a broad risk pool for individuals needing long term care services and provide support for those who qualify without a means-test. This approach would place the need for long term supportive services in the same category as acute health care (Medicare) and income support (Social Security) for older adults and individuals with work-related disabilities in guaranteeing universal or near-universal coverage.

Background: Social insurance enables or requires individuals to pool their risks for specified future costly events, such as medical care or retirement. Under a social insurance program, everyone pays something into the program's fund (usually through an insurance premium and/or a designated tax) and then earns the right to benefits under specified conditions without regard to financial need.

A social insurance approach to financing long-term care offers several advantages, including universal coverage, protection against catastrophic out-of-pocket costs, broad political support, the ability to develop a more balanced delivery system, reduction of the current two-class system of care, and the market power to negotiate favorable payment rates. Disadvantages include the high additional pubic cost that will continue to increase as the population ages, further burdening today's younger generation to support primarily older beneficiaries (through payroll taxes), providing benefits to upper-income people who can pay for their own care, and the potential inflexibility of a primarily government-based program.

Several industrial countries use a social insurance approach to long term support services using a variety of revenue sources (Austria, Belgium, Germany, Israel, Japan, Luxembourg, and the Netherlands).[1] In Germany, the program is funded by 1.7 percent of income (up to a ceiling), divided equally between workers or retirees and employers or pension funds. Interestingly, starting in 2005, childless employees pay a supplementary contribution of 0.25 percent because these individuals will not have children available to provide informal services or pay contributions in the future. High-income people may opt out of the social insurance system by purchasing equivalent or better private coverage. The program offers a cash benefit equivalent to about half of the service-based benefit.

Hawaii's Experience: In 2002-2003, the Hawaii State Legislature passed a bill authorizing the creation of a long term care (LTC) trust fund called Hawaii CARE PLUS; however the Governor vetoed the bill. The fund was to be financed by an initial $10/month income tax surcharge on every Hawaii tax filer over the poverty line. The benefit package was intended to cover approximately 75% of the care needed by a typical LTC user, in home or community care, for up to 365 days at $70/day initially. The right to benefits was to accumulate over a ten-year period, with 1/10 of the face benefit added for each year of participation (payment of the income tax surcharge).

[1] Mark Merlis and Paul N. Van de Water (November 2005) *Long-Term Care Financing: Models from Abroad*, National Academy of Social Insurance Health and Income Security Brief No. 9 found at http://www.nasi.org/usr_doc/Health_and_Income_Security_Brief_No_9.pdf

The designers hoped the staged acquisition of benefit rights, together with an initial three year delay of start of benefits would serve to deter “LTC Tourism” (e.g., individuals moving to Hawaii primarily for Hawaii CARE PLUS). Low income workers (those with income less than the poverty level) were excluded from the tax because they might qualify for Medicaid. The use of the income tax surcharge allowed the funding mechanism to be spread over the population for the entire exposure period, the whole life, rather than limited to working years. The program was designed as a pay-as-you-go system to restrict the size of reserves required. A separate legal entity, with its own qualified trustees, was required to limit the possibilities of legislative raids on the Fund.

Potential Options: Although contributory financing and entitlement to benefits are the hallmarks of most social insurance strategies, wide variations in the design of the program are possible. If the state were to pursue a social insurance approach, a number of eligibility, benefit and other implementation details would need to be addressed, including:

- Who would be eligible for benefits? Which target populations and what measures would be used to determine eligibility?
- What benefits would be available, included services covered, whether there would be a waiting period, the maximum benefits available and whether that would be time or dollar limited?
- Would the benefits include a cash alternative? If so, would the amount be less than that paid directly for services?
- What amount of cost-sharing would be required and would that be a fixed amount or a percent of costs? Would it vary by type of services? Would there be a cap on out-of-pocket liability? If so, would it be annual or over an individual’s lifetime?
- What financing mechanism would be used? Would the state designate a portion of existing tax revenue (i.e. a portion of the sales tax or payroll taxes) or new tax sources (e.g. income tax, general revenue, beneficiary premiums)?